Economic Trends

The impact of the oil price shock on the Alberta economy appears to be subsiding as many economic indicators are showing signs of stabilization. Business output and employment have improved. The value of Alberta's exports has also increased alongside oil production growth and higher oil prices. However, economic activity remains below pre-recession levels. This month's InFocus reviews the economic events that shaped Alberta's economy in 2016.

Key Indicators

Seasonally adjusted unless otherwise indicated.

Indicator	Latest Month	Value	Change year-over-year (y/y)
Employment (thousands)	December	2,267	-0.9%
Unemployment Rate	December	8.5%	+1.6 p.p.
CPI Inflation (unadjusted)	December	1.0%	-0.5 p.p.
Retail Sales	November	$6.2 B	-2.1%
Housing Starts (annualized)	December	26,792	+5.1%
Rigs Drilling (unadjusted)	December	151	57.3%
Manufacturing Shipments	November	$5.4 B	+0.7%
Exports (unadjusted)	November	$7.6 B	+13.1%

Source: Statistics Canada, CAODC, CMHC. p.p.= percentage points.

Alberta Household Sector

Population growth slows

Interprovincial net outflows continue to temper Alberta's population growth. In the third quarter of 2016, growth moderated to 0.38%. The province added about 16,000 residents, but net outflows of interprovincial migrants accelerated to over 3,800. Growth was supported by solid net international migration and natural increase. On a year-over-year (y/y) basis, Alberta's population growth (1.6%) remained ahead of the national average (1.3%) and was the second highest among the provinces.

Positive signs in labour market

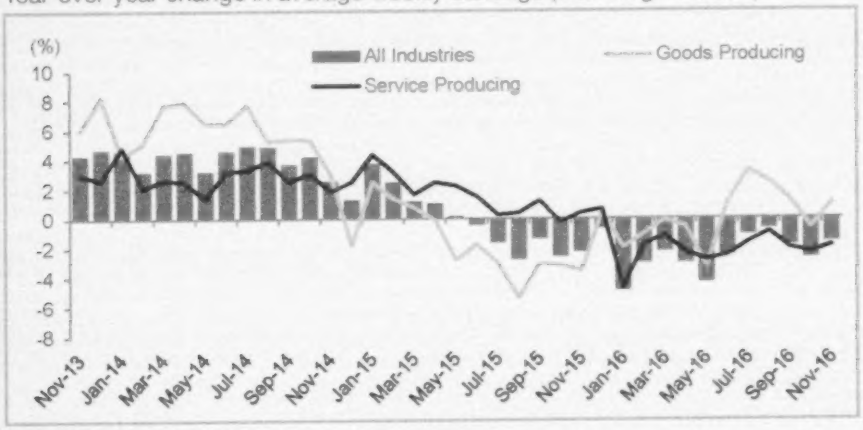
Alberta's labour market is showing signs of improvement. Job gains in four of the last five months of 2016 lifted employment by 19,000 compared with the July 2016 low. Initial employment insurance (EI) claims have eased from the high levels early in 2016. Challenges, though, still exist. A large number of Albertans continue to receive EI benefits and the unemployment rate remains elevated at 8.5% as job gains have not kept pace with the growth of the labour force.

Earnings languish

Despite recent improvements in employment, earnings remain soft. Through the first eleven months of 2016, average weekly earnings were down 2.5%, although the pace of decline eased from earlier in the year. The decrease was largely attributed to reductions in hours worked and lower earnings in the service sector (Chart 1). Earnings in the goods sector continued to improve, propped up by higher earnings in mining and oil and gas extraction, which grew 8.1% y/y in November.

Chart 1: Earnings continue to pullback

Year-over-year change in average weekly earnings (including overtime)



Sources: Statistics Canada

Housing activity picks up

Alberta's housing market showed some resilience at the end of 2016, with housing activity rising from the low levels in mid-2016. After hitting a 2016 high of 29,000 (annualized) in September, housing starts averaged almost 26,000 (annualized) in the last three months of the year. In the resale market, sales recovered in December after changes to mortgage rules caused a pullback in November. The rebound in activity was most pronounced in

Calgary, where the resale market moved into sellers' territory and the average resale price reached a new high in December 2016. Despite the improvement, housing starts and resale activity remain far lower than pre-recession levels. Meanwhile, Alberta's rental vacancy rate jumped to a recent high of 8.1% in 2016.

Alberta Business Sector

Oil prices holding steady

Oil prices maintained some momentum in January after rising in late 2016. Prices were supported by an agreement in late November between OPEC and major non-OPEC producers to cut oil production by almost 2 million barrels per day starting in January 2017. Recent third-party surveys estimate the current compliance rate by OPEC members to production cuts is around 82%. However, ongoing concerns about the return of US shale production and elevated crude inventories have limited price gains. The WTI price averaged US$52.61/bbl in January.

Rig drilling activity strengthens

Improving oil prices continue to prop up drilling activity in Alberta. In late January, the number of active rigs surpassed 200, the highest level since early 2015. Rig utilization also hit 50%, more than double the utilization rate in January 2016. Drilling activity in the US has also picked up but remains below historical levels. Given the significant decline in activity over the last two years, however, activity remains well below the 5-year average (Chart 2).

Exports rally on higher production and prices

Expanding crude oil production and improving oil prices have led to a surge in Alberta's exports. The value of exports was up over 40% in November compared to the low posted in April 2016, as strong production and higher prices lifted energy exports. After recovering from the wildfires, Alberta's oil production continued to expand and non-conventional production reached the highest level on record in November. Alberta produced 3.3 million barrels of oil per day, up 9.2% from the same period in 2015. The increase was driven by continued growth in production of synthetic crude (+17% y/y) and bitumen (+9.5% y/y).

Manufacturing improves

Business activity in the province continues to move higher from the lows seen in mid-2016. The value of manufacturing shipments rose to over $5.4 billion in November and grew year-over-year for the first time since December 2014. There were broad-based increases in all major categories, in particular for chemicals and food manufacturing. Wholesale trade also showed signs of improvement in the last two months.

Investment continues to slow

Investment in the province remains weak as construction activity continued to decline. Non-residential construction investment in the fourth quarter of 2016 fell to the lowest level in three years to $2.5 billion. An 18% decline in industrial and commercial structures outweighed a 22% y/y increase in institutional and governmental structures.

Costs continue to ease

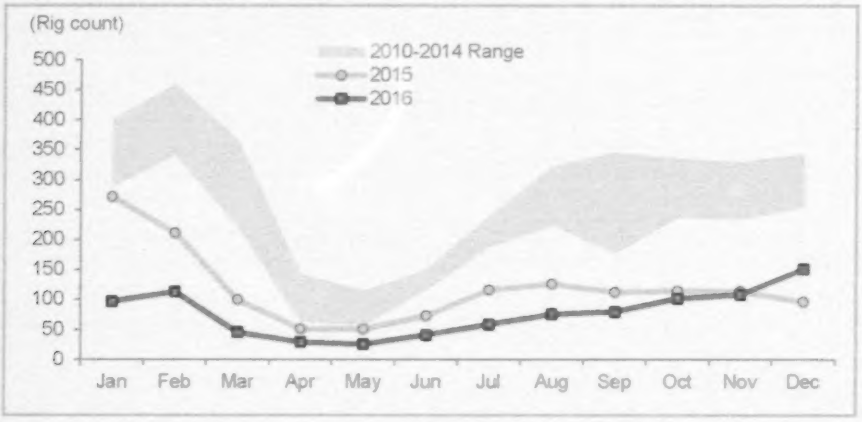
Costs in the province also continued to moderate. With the slowdown in activity, the non-residential building construction index declined by an estimated 2.6% y/y in the third quarter. Although consumer inflation picked up in December due to an uptick in energy prices, year-over-year growth in the consumer price index stood at 1.1% pulled down by lower food prices.

Global Economy

Global growth to pick up in 2017

The global economy is expected to gain traction this year. The International Monetary Fund is projecting global growth to pick up from an estimated 3.1% in 2016 to 3.4% in 2017, reflecting improved outlook for some advanced economies such as the US and Canada. While growth in emerging and developing countries is also expected to pick up this year, the outlook was revised down slightly from October 2016 in light of generally tighter financial conditions. The IMF also noted that the global outlook is clouded by uncertainty surrounding the policy stance of the new US administration.

Chart 2: Drilling activity continues to climb
Number of active rigs in Alberta



Source: Canadian Association of Oilwell Drilling Contractors (CAODC)

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inFocus

A Year in Review

2016 was another difficult year for Alberta as the impact of the steep drop in oil prices continued to reverberate throughout the economy. Adding to the province's economic challenges were the wildfires in Fort McMurray. However, signs of stability started to emerge for many economic indicators and oil prices improved in the second half of the year.

Global growth disappoints

The global economy underwhelmed in 2016 despite accommodative monetary policy. Weaker activity in the first half of the year was a drag on economic growth in advanced economies while the economic performance of emerging market and developing economies varied. The year was also marked by a series of political events that increased global economic uncertainty heading into 2017, including the outcome of the Brexit vote in the summer and the US election results in November.

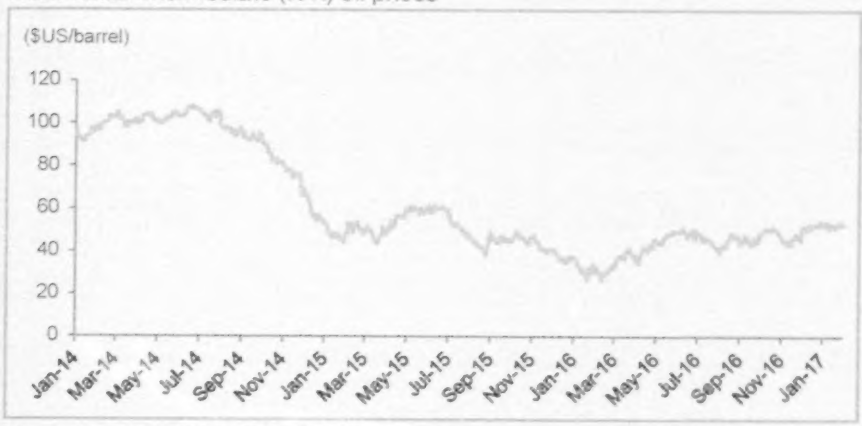
Oil prices hit trough before improving

The plunge in oil prices carried into 2016, with the price of West Texas Intermediate (WTI) hitting a 12-year low of US$26/barrel (bbl) in February (Chart 1). While supply disruptions and falling US oil production lifted oil prices to nearly US$50/bbl by the end of June, global inventories remained near record levels. Prospects of an OPEC output cut supported oil prices in the second half of the year, although uncertainty about demand and the timing of market rebalancing limited gains. An agreement between OPEC and non-OPEC countries to cut production in 2017 sent oil prices above US$50/bbl oil at the end of the year.

Business investment declines

Business investment in the province contracted in 2016. Following a decline of over 50% in 2015, overall drilling activity fell by 36% in 2016 and was only a third of 2014 levels. Oil sands investment was also limited to ongoing projects and sustaining capital. Outside the energy sector, non-residential building investment fell 7.8% in 2016, dragged down by slower activity in commercial and industrial sectors. This was partly offset by higher government and institutional spending.

Chart 1: Oil prices improve after hitting bottom
West Texas Intermediate (WTI) oil prices



Source: Chicago Mercantile Exchange (CME)

Impact spreads to other sectors

The effects of the oil price shock were evident in virtually all sectors of the economy. Overall exports fell 17% in the first eleven months of 2016, reflecting weakness in both energy and non-energy exports. In the manufacturing sector, sales of petroleum and coal products plunged to a low in February, while demand fell sharply for machinery and equipment. However, there were some sectors that fared better. Chemical and wood manufacturing picked up in 2016, while food manufacturing improved after declining earlier in the year.

Wildfires add to economic woes

The wildfires that ravaged the Wood Buffalo region in the spring added to Alberta's economic challenges in 2016. The wildfires led to the mass evacuation of over 88,000 residents (roughly 2% of Alberta's population) and destruction of over 1,500 residential and commercial structures. Insurable losses caused by the wildfires were estimated at $3.7 billion, the largest in Canadian history. The temporary shutdown of several oil sands production facilities also resulted in approximately 51 million barrels of lost oil production over a two-month period. The disruption to economic activity and oil production weighed on Alberta's economic growth in 2016.

Population growth moderates

Despite the economic downturn, Alberta's population continued to grow, albeit at a slower pace, supported by record-setting immigration and robust natural increase. However, weaker labour market conditions led to net outflows of interprovincial migration. Even so, Alberta's population growth remained the strongest in the country at 1.8% in the 2016 census year.

Labour market deteriorates

The broad-based weakness in the economy led to further strain in Alberta's labour market. Employment fell 1.6% in 2016, the largest contraction since 1983. Most of the job losses occurred in the first half of the year and spread to other sectors of the economy. The weakness in employment combined with a steadily increasing labour force led to a surge in the unemployment rate which hit a 20-year high of 9% in November before finishing the year at 8.5%.

Lower earnings weigh on consumer spending

Sustained economic weakness dragged down earnings in 2016. Average weekly earnings began to decline on a year-over-year basis in June 2015 and did not bottom out until May 2016. As a result, consumers pulled back spending, with retail sales down nearly 2% in the first eleven months of 2016 following a decline of 4.6% in 2015. While the weakness was broad-based, sales of discretionary items were the hardest hit.

Housing market remains sluggish

The downturn also weighed heavily on residential activity. Housing starts retreated sharply in 2016, plunging nearly 34% to 24,533 units. Resale activity also fell further by 7.6% in 2016 following a 21% decline in 2015. Despite the weakness, house prices remained relatively flat in 2016.

Costs continue to moderate

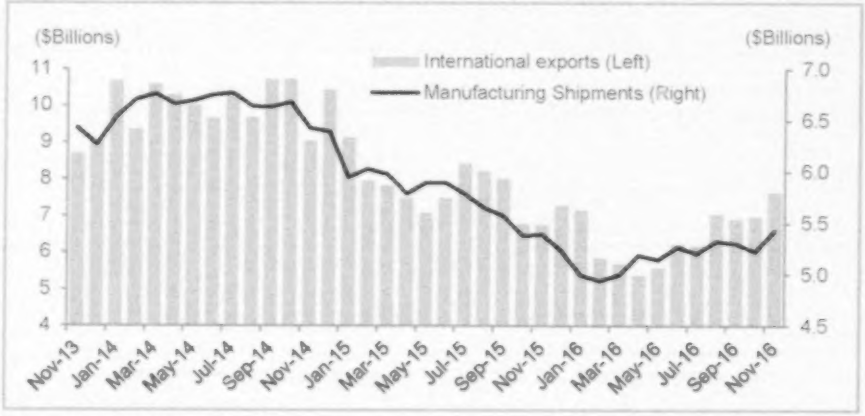
Cost pressures eased in the province for businesses and consumers. Slower economic activity and declining labour costs resulted in lower construction costs. Building construction costs fell nearly 3% in the first three quarters of 2016 compared to the same period in 2015. For consumers, lower energy prices and easing shelter costs kept inflation subdued at 1.1% in 2016. Food prices were also kept in check due to downward pressure on farm product prices. The farm product price index declined in the first nine months of 2016 following gains in the past two years. Most of the decline was in animal prices, although grain prices started to weaken in the third quarter of 2016.

Signs of stability emerge

After falling for most of the first half of 2016, activity in the province began to improve in the latter half of the year (Chart 2). Drilling activity picked up and ended the year at a higher level than in 2015. Exports bounced back after reaching a low in April, boosted by stronger energy exports and prices. Bitumen production fully recovered from the wildfire outages and was up nearly 6% in the first eleven months of 2016 compared to the same period in 2015. Manufacturing shipments also improved, supported by chemical and petroleum and coal products and easing declines in machinery and equipment. Housing starts in the province stabilized in the latter part of the year and existing home sales picked up. Alberta's labour market showed signs of improvement, with employment increasing by 19,000 from the July low (Chart 3).

Chart 2: Business output rebounds from recession lows

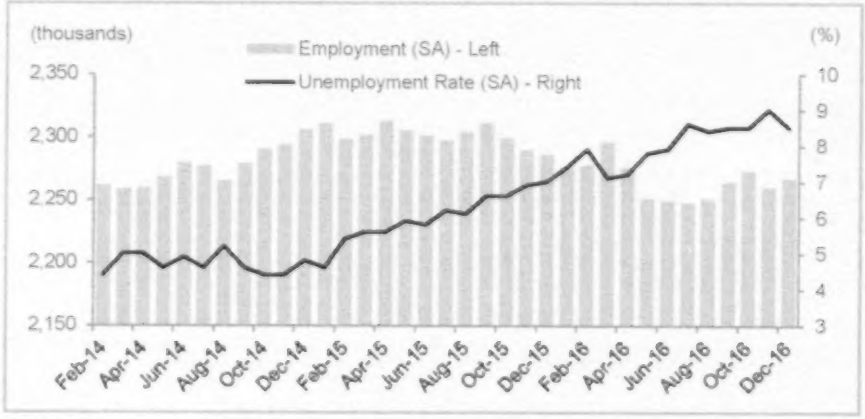
Alberta international exports and manufacturing shipments



Source: Statistics Canada

Chart 3: Labour market shows signs of improvement in second half of 2016

Alberta employment level and unemployment rate



Source: Statistics Canada

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